



**DEPARTMENT OF INSURANCE
STATE OF ARIZONA**

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**INSTRUCTIONS FOR APPROVAL OF EXTRAORDINARY
DIVIDENDS AND OTHER DISTRIBUTIONS**

Reference A.R.S. § 20-481.19 and A.A.C. R20-6-1408 requirements for the Director's approval upon extraordinary dividends and other distributions to shareholders. The following outline sets forth the information required to be reported for the consideration of the Director.

Thirty (30) days PRIOR NOTICE of extraordinary dividends or any other extraordinary distribution to shareholders shall include the following:

1. The amount of the proposed dividend;
2. The date established for payment of the dividend;
3. A statement as to whether the dividend is to be in cash or other property and, if in property, a description thereof, its cost, and its fair market value together with an explanation of the basis for valuation;
4. A copy of the calculations determining that the proposed dividend is extraordinary, including:
 - a. The amounts, dates and form of payment of all dividends or distributions, including regular dividends and excluding distributions of the insurer's own securities, paid within the period of twelve (12) consecutive months ending on the date fixed for payment of the proposed dividend for which approval is sought and commencing on the day after the same day of the same month in the last preceding year;
 - b. Surplus as regards policyholders (total capital and surplus) as of the 31st day of December next preceding;
 - c. If the insurer is a life insurer, the net gain from operations, excluding net realized capital gains and including net realized capital losses, for the twelve (12) month period ending the 31st day of December next preceding;
 - d. If the insurer is not a life insurer, the net investment income*, for the twelve (12) month period ending the 31st day of December next preceding and the two (2) receding twelve (12) month periods; and
 - e. If the insurer is not a life insurer, the dividends paid to stockholders excluding distributions of the insurer's own securities in the preceding two (2) calendar years.
5. A balance sheet and statement of income for the period intervening from the last annual statement filed with the Director and the end of the month preceding the month in which the request for dividend approval is submitted; and
6. A brief statement as to the effect of the proposed dividend upon the insurer's surplus and the reasonableness of surplus in relation to the insurer's outstanding liabilities and the adequacy of surplus and assets relative to the insurer's financial needs.

Each registered insurer shall report to the Director all dividends and other distributions to shareholders within fifteen (15) business days following the declaration thereof, including the same information required by 4a through 4e of this outline.

Adequacy of Surplus

In determining the adequacy and reasonableness of an insurer's surplus, the Director shall consider the net effect of all of the factors set forth in A.R.S. § 20-481.24 plus other factors bearing on the financial condition of the insurer. In comparing the surplus maintained by other insurers, the Director shall consider the extent to which each of these factors varies from insurer to insurer. In determining the quality and liquidity of investments in subsidiaries, the Director shall consider the individual subsidiary and may discount or disallow its valuation to the extent that the individual investments so warrant.

* Includes realized capital losses and excludes realized capital gains; the lesser of Page 4 Line 8 or Page 4 Line 9A as a consequence.